

Step 5 shows that Mark and Evelyn's earned income is within the limits allowed to claim the EIC. Step 6 indicates they will use the EIC Worksheet to figure the amount of the credit.

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Step 5 Earned Income

1. Figure earned income:

Form 1040A, line 7

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for Form 1040A, line 7).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for Form 1040A, line 7). This amount may be shown in Form W-2, box 11. If you received such an amount but it is not reported on Form W-2, contact your employer for the amount received as a pension or annuity.

Add all of your nontaxable combat pay if you elect to include it in earned income.* Also enter this amount on Form 1040A, line 41b. See *Combat pay, nontaxable*, on this page.




Electing to include nontaxable combat pay may increase or decrease your EIC. Figure the credit with and without your nontaxable combat pay before making the election.

Earned Income =

2. If you have:

- 2 or more qualifying children, is your earned income less than \$35,263 (\$37,263 if married filing jointly)?
- 1 qualifying child, is your earned income less than \$31,030 (\$33,030 if married filing jointly)?
- No qualifying children, is your earned income less than \$11,750 (\$13,750 if married filing jointly)?

☐ **Yes.** Go to Step 6.☐ **No.** 

You cannot take the credit.

Step 6 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

☐ **Yes.** See *Credit figured by the IRS* on this page.☐ **No.** Go to the worksheet on page 45.**Definitions and Special Rules**

(listed in alphabetical order)

Adopted child. An adopted child is always treated as your own child. An adopted child includes a child lawfully placed with you for legal adoption even if the adoption is not final.

Combat pay, nontaxable. If you were a member of the U.S. Armed Forces who served in a combat zone, certain pay is excluded from your income. See *Combat Zone Exclusion* in Pub. 3. You can elect to include this pay in your earned income when figuring the EIC. The amount of your nontaxable combat pay should be shown in Form(s) W-2, box 12, with code Q. If you are filing a joint return and both you and your spouse received nontaxable combat pay, you can each make your own election.

Credit figured by the IRS. To have the IRS figure the credit for you:

1. Put "EIC" to the left of the entry space for Form 1040A, line 41a.
2. Be sure you enter the nontaxable combat pay you elect to include in earned income on Form 1040A, line 41b. See *Combat pay, nontaxable* above.
3. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see *Form 8862, who must file*, below.

Exception to "time lived with you" condition. A child is considered to have lived with you for all of 2005 if the child was born or died in 2005 and your home was this child's home for the entire time he or she was alive in 2005. Temporary absences for special circumstances, such as for school, vacation, medical care, military service, or detention in a juvenile facility, count as time lived at home. Also see *Kidnapped child* on page 23, if applicable. If you were in the military stationed outside the United States, see *Members of the military* on page 44.

Form 8862, who must file. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

1. After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed, and (b) your EIC has not been reduced or